

**Testimony On MSHDA Draft Qualified Allocation Plan
Housing Priorities for the State of Michigan
September 15, 2007
By: Dennis Sturtevant, Chief Executive Officer**

Dwelling Place Position Statement

Dwelling Place was unable to participate in any of the scheduled QAP Hearings. We are grateful for the opportunity to offer our input in writing.

The draft QAP has been released in pieces only during this past month. The document itself reports that it is the first major re-write of the LIHTC Qualified Allocation Plan in more than 10 years. These two facts and the fact that the LIHTC program has become the single most significant resource for development of affordable housing in Michigan leads us to believe that the most important recommendation we can make is to ask that more time be taken to hear from those with the most direct experience in developing, financing and managing LIHTC housing before this plan is adopted.

If the purpose of public notice and hearings is to seek reasoned and thoughtful feedback regarding provisions in the plan for their impact on the creation and preservation of affordable housing in Michigan then those who are most fully engaged in this process should be given more time than is currently being allotted to carefully examine all of the various provisions of the draft to offer their insight, especially since the full QAP draft, with its scoring criteria, have not yet been released.

We have noted the numerous unqualified endorsements for this draft plan from various social service and mental health organizations that are posted on the MSHDA website, some in the form of a brief email message. Most are one or two paragraph endorsements and some actually incorporate identical language similar to the letter generating campaigns that we sometimes use to influence pending legislative proposals. Their support is based on the proposed increase in the holdback for supportive housing for addressing homelessness, an important and challenging issue addressed in this plan. While every individual, group and organization has the right to formulate their view of the plan for single or multiple reasons and while all forms of public input must be encouraged and welcome, we are concerned that the LIHTC program is sufficiently complex and so extraordinarily important to this state that it warrants a more in depth discussion with MSHDA's many experienced non profit and for profit development partners who are capable of offering much more than a simple 3 sentence endorsement of one component of the plan.

In that regard, we have also noted the serious concerns being raised by many experienced developers and investor groups that are also posted on the MSHDA web site.

For Dwelling Place, we do find that there is much that we can support in the draft plan. For example:

1. We believe the discontinuance of the lottery format is a very positive change.
2. We believe that it is appropriate to establish priorities in the LIHTC QAP to target the homeless and others with the most severe housing needs so long as the accompanying supportive service needs and related underwriting concerns for rent subsidies and the longevity of these commitments can be satisfactorily addressed.
3. We believe the LIHTC program, similar to other tax credit programs, can be used as leverage to help to stimulate neighborhood and economic development, in even the most challenged areas, but only when the LIHTC resource is incorporated as part of a community plan combined with local commitments for public infrastructure improvements, other private investment in these areas and substantial philanthropic support.

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4. We also support a focus on core city and economically depressed downtown projects (urban and rural) but only where a market for these housing units can be documented and where quality construction can be ensured.

While we believe that these types of goals are reasonable and appropriate in a QAP we do have some reservations with the manner in which the draft plan attempts to address these issues. We would like to highlight several of those concerns.

Targeting Concentrations of Poverty

Even if the context for targeting concentrations of poverty that was offered in the QAP as justification is accepted as reasonable, the proposal to establish holdbacks for specific political jurisdictions would seem to invite a whole host of potential negative consequences in a state that has a long history of political divisiveness defined by geographic boundaries. The Affordable Housing Fund, as one example, will require broad, statewide, bipartisan political support if we ever hope to see it funded in the state budget. Establishing holdbacks by political/geographic jurisdictions will inevitably create controversy and conflict between those jurisdictions that have a hold back and those that do not. If concentrating this resource in areas with high poverty is an important objective then it seems that using census tract data, rather than political/geographical jurisdictions, would make much more sense in the QAP to avoid any potential to misconstrue the motives behind the establishment of the holdbacks. Poverty census tracts exist in every part of the state in both rural and urban counties and while the resulting allocations might not vary substantially from the proposed holdbacks the political fallout would likely be mitigated substantially with this simple alteration.

Davis Bacon Requirements

A second concern we wish to raise is the proposed requirement to utilize Davis Bacon regulations in all LIHTC projects. Dwelling Place has substantial experience working with Davis Bacon regulations as many of our housing projects receive HOME and other federal funds that require the implementation of Davis Bacon regulations. The QAP implies that the incorporation of these requirements will help to alleviate poverty in neighborhoods where LIHTC projects are created. This policy requirement seems to presume that construction workers are not already being paid a living wage for their services. While this might have been true many years ago it is certainly not true today and there is little empirical data to support this assumption. To illustrate this fact we would like to share one recent experience Dwelling Place had on one of our Supportive Housing projects that was subject to Davis Bacon. When we bid our Verne Barry project in the Spring of 2006 we received a market based trade payment breakdown in a cost not to exceed contract for this project that we were prepared to close on with MSHDA in July of 2006. At the time, the market rate bid exceeded the Davis Bacon prevailing wage that was in place at the time of the bid. Between the time the project was bid and the date we closed on the project the prevailing wage determination had been updated forcing us into a change order for the project of nearly \$90,000. What is most revealing in this example is the fact that the adjustment was made to increase wages and benefits in certain trades such as electricians, drywall installers, pipe fitters and sheet metal workers to an average of over \$60,000, far higher than any definition of a living wage we have ever seen. In this same project, under a separate contract we are now being required to pay asbestos abatement workers more than 30% higher wages and benefits over the market as a direct result of Davis Bacon. These workers are enjoying wages and benefits in excess of \$65,000 annually, far in excess of any existing living wage thresholds. Current market wages in the construction market are well above the living wage floors advocated by most advocacy groups and there is no need to add one more compliance factor to the development process that will only add cost and paperwork.

Secondly, the inclusion of Davis Bacon requirements in the QAP seems to imply that one result will be a substantial increase in the employment rates for neighborhood residents who will be employed in these construction positions. There is very little evidence that any of the Davis Bacon jobs or the associated wage premiums will go to unskilled and lower income households in the neighborhoods where these projects are located.

Unless MSHDA has convincing research to the contrary, the Davis Bacon requirements will appear to many as nothing more than homage to organized labor and an unnecessary added tax to LIHTC projects, further reducing the number of affordable housing units that can be produced in Michigan. While it might be true that some political jurisdictions already mandate the use of Davis Bacon regulations within their boundaries and many larger HOME

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funded LIHTC projects will be subject to these regulations it is not necessarily true that the majority of LIHTC projects would have otherwise been subject to these regulations.

Similar to the holdbacks, this requirement could impair our ability to secure the needed legislative support to move any number of important housing initiatives forward as it might appear that we are willing to squander our very limited financial resources to offer a premium to the construction trades that is not presently required by federal law. If the concern is one of ensuring that all construction workers are being paid a living wage we believe there are alternate strategies to accomplish the same result. The Michigan League for Human Services, for example, has recently completed a 2007 analysis to define a living wage in Michigan based on family size and type. Since there is no statutory or regulatory requirement to use a prevailing wage or any other base wage in LIHTC projects, using some form of simple monitoring system and applying the MLHS Living Wage standards to the LIHTC program would seem to be far more reasonable and far less political in appearance reaching the same result without increased costs and paperwork. In those political jurisdictions where prevailing wage is a requirement for all public projects Davis Bacon could continue to be used without handicapping the remainder of the state.

Affordable Housing Preservation

The draft QAP briefly references a need to focus on properties where owners are seeking exit strategies to ensure preservation of this existing affordable housing stock. The absence of any holdbacks for preservation is noteworthy given the very significant size of this state's aging affordable housing portfolio. In recent years, preservation of existing housing has received significant attention at both the federal and state levels. With so few references to this issue in the draft QAP and no holdbacks for preservation we feel compelled to raise concerns in this regard and to restate our belief that the QAP should not be adopted until there has been sufficient time to review the QAP draft in its full and final form. We have been informed that preservation deals will receive priority ratings in the scoring of projects within the various holdbacks. However, since we have not yet seen that important section of the QAP it is very difficult to offer a reasonable response to the plan.

Summary

The primary concern that Dwelling Place has with this QAP draft is not with the goals outlined in the QAP. Rather, it is the limited opportunity that exists for a genuine dialog between MSHDA, investors, developers (for profit and non profit) and other key players that will be expected to help implement the QAP. Given the fact that the entire QAP had not been released even as hearings were taking place and the fact that this draft is substantially different than previous plans, it should surprise no one that serious concerns are being raised from many of those partners.

Dwelling Place is one of the largest and most experienced non-profit developers in the state. We have used LIHTC, Brownfield, Historic and New Markets tax credits in our projects. We have been involved in the development and management of more than 1,000 housing units and more than 40 commercial and retail projects. We have utilized MSHDA, HUD and RHS financing in our many projects. We have also worked with many Qualified Allocation Plans through our history including use of the very first allocation of LIHTC that Michigan received. We are optimistic that an implementation strategy can be created that will allow the most of the larger MSHDA policy objectives to be achieved without jeopardizing important development partnerships.

We strongly recommend that MSHDA consider using the QAP draft and the testimony received during the hearings to form the agenda for a "Policy Summit" with appointed representatives of the various partner groups to evaluate how the broader MSHDA goals might be supported by a revised QAP that would also foster more broad based support for the revisions. No one in the state is well served if many of the state's most effective developers and some of its strongest investors withdraw from or reduce their level of participation in the LIHTC process because of specific provisions in the QAP.

We stand ready to join in this effort and to participate in any constructive way that will help to improve the quality of life in this state for all of its citizens. Thank you for the opportunity to offer our input.